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Tax Features

Congressman Bill Frenzel Joins Tax Foundation as Distinguished Fellow

The Honorable Bill Frenzel, Republican congressman from Minnesota's third district from 1971 to 1991, has joined the Tax Foundation as a distinguished fellow. Congressman Frenzel was the Ranking Minority Member of the House Budget Committee and the House Administration Committee. He also served on the House Ways and Means Committee and its subcommittee on trade, and was a congressional representative to the General Agreement on Tariffs and Trade (GATT).

Invited by the Russian government to give advice on the taxation of foreign investment, the Tax Foundation assembled a delegation of tax experts with Bill Frenzel as its leader. Now a Distinguished Fellow at the Foundation, Congressman Frenzel (l.) is seen here being greeted in Moscow by S.V. Gorbachev, Deputy Minister of Finance.

Highly regarded on both sides of the aisle during his tenure in the House of Representatives, Frenzel was described by Congressional Quarterly's *Politics in America* as "a workhorse and a true professional." On the trade subcommittee of the Ways and Means Committee, he was a vigorous exponent of free trade, fighting the adoption of protectionist measures by Congress here in the U.S. and their adoption by other nations as part of GATT. He particularly opposed the notion that we should automatically impose trade restrictions on nations that run a trade surplus with the U.S.

Frenzel attended Dartmouth College where he received his B.A. and M.B.A. He worked in the private sector as a warehouse company executive before beginning his public sector career in the Minnesota House in 1963. ■

TAX FOUNDATION

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FRONT BURNER

Don't Penalize Higher Education with The Tax Code

David Boren

Unlike the Cold War era when military might reigned supreme, nations in the transformed world in which we find ourselves today must learn to compete primarily in the economic and intellectual realms. So too must people be able to adapt to our new environment and anticipate the direction of future change. A robust educational system with world-class institutions of higher education, both public and private, is vital to our future development.

The Tax Reform Act of 1986 contained two provisions that were particularly detrimental to institutions of higher education. One dealt a blow to donations of appreciated property to nonprofit organizations, and the other hurt tax-exempt bonds issued by private colleges and universities. Although our need for education continues to increase, these provisions are indicative of the fact that the federal government's financial commitment to colleges and universities is decreasing. Furthermore, tax policy now discriminates against private institutions of higher education. While some decrease in support of higher education may be inevitable given current federal, state, and local budgetary constraints, the federal government should not at the same time hamper the efforts of colleges and universities to find private support or to borrow funds for their capital needs.

Senators John C. Danforth (R-MO) and Daniel Patrick Moynihan (D-NY) have joined me in introducing legislation, the Charitable Contribution Tax Act, which would reverse this disturbing trend by repealing these two adverse provisions of the 1986 Tax Act. The broader tax

See Boren on page 2

David Boren, Democratic senator from Oklahoma since 1979, serves on the Senate Finance Committee and is Chairman of its Subcommittee on Taxation.

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

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legislation that was reported by the Senate Finance Committee in late July included those provisions.

Before enactment of the Tax Reform Act of 1986, donations of appreciated property, such as art, securities, and real estate, to colleges, universities, and other nonprofit organizations were deductible in the amount of their fair market value at the time of the gift. For example, if an individual purchased an artwork for $1,000 and gave it to a university several years later when its fair market value was $10,000, that individual would have been entitled to a charitable contribution deduction of $10,000. The 1986 Tax Act, however, limited charitable contribution deductions for taxpayers subject to the alternative minimum tax to the amount of the property's original cost to the donor. Thus, in the example I just gave, the donor's deduction, assuming he or she is subject to the alternative minimum tax, would be $1,000 (instead of $10,000).

The Tax Reform Act of 1986 contained two provisions that were particularly detrimental to institutions of higher education. One dealt a blow to donations of appreciated property to nonprofit organizations, and the other hurt tax-exempt bonds issued by private colleges and universities.

The 1986 "reform" has led to a precipitous decline in gifts of appreciated property, although other types of charitable giving has remained vigorous. Colleges and universities throughout the nation have identified repeated instances where potential donors changed their minds or altered their gifts solely because of this change in the tax code.

In 1990, the Congress partly undid the damage caused by the 1986 Tax Reform Act by restoring temporarily full deductions for gifts of "tangible" property such as artworks and manuscripts. This provision already has resulted in a dramatic turnaround in gifts made to museums during 1991 and the first six months of 1992.

I believe that it is very important for this relief to be extended to gifts of securities and real estate, as well as to gifts of tangible property, because these donations are crucial to educational institutions. The legislation that I have introduced, along with Senators Danforth and Moynihan, would restore permanently the full fair market value deduction for all gifts of appreciated property. Thus, gifts of artworks, collectibles, securities, and real estate all would be deductible at their full market value, rather than their cost to the donor.

Gifts of artworks, collectibles, securities, and real estate all should be deductible at their full market value, rather than their cost to the donor. This legislation needs to be enacted as soon as possible because we no longer can allow our great institutions of learning, art, and science to languish because the tax code punished the generosity of private citizens.

I am convinced that such legislation will result in a significant increase in charitable contributions to our nation's colleges and universities. This legislation needs to be enacted as soon as possible because we no longer can allow our great institutions of learning, art, and science to languish because the tax code punished the generosity of private citizens.

The second part of our legislation is vital to the continued well-being of our private colleges and universities. It would repeal the provisions of the Tax Reform Act of 1986 that arbitrarily capped the amount of tax-exempt bonds that private colleges and universities may issue, allowing these institutions to use tax-exempt bond financing in substantially the same manner as their public counterparts.

The practical effect of the $150 million bond financing cap that the 1986 Tax Act placed upon private institutions of higher learning has been to deny tax-exempt financing to large, research-oriented institutions most in need of capital to carry out their research mission. Currently, twenty-four private colleges and universities are at, or near, their bond financing cap and, thus, are foreclosed from using additional tax-exempt debt. If these institutions have to resort to more costly forms of financing, the result undoubtedly will be delays in renovation and construction that is badly needed to meet educational challenges in the years ahead.

The disparity in the treatment of tax-exempt bond financing between public and private institutions of higher education is a situation that should concern us all. The United States is unique in the roughly equal distribution of higher education between public and private institutions. This characteristic of our educational system has played a key role in the level of excellence it has achieved. By repealing the cap on tax-exempt bond financing for private colleges and universities, we can help to ensure that both the public and private sectors of higher education remain vigorous.

Our legislation ... would repeal the provisions of the Tax Reform Act of 1986 that arbitrarily capped the amount of tax-exempt bonds that private colleges and universities may issue, allowing these institutions to use tax-exempt bond financing in substantially the same manner as their public counterparts.

In conclusion, the enactment of tax provisions that encourage charitable donations and that allow capital financing at lower cost through the issuance of tax-exempt bonds is a way in which the government can effectively and appropriately enhance the ability of all colleges and universities to fulfill their important mission. ■

Typical American Family Finds Itself $214 Poorer in 1992

According to a new Tax Foundation study, weak income growth, inflation, and accelerating taxes will make the typical family $214 dollars poorer in 1992. Titled *Value of Typical American Family's 1992 Income Eroded by Taxes and Inflation*, the report defines a typical family as a household with two earners employed full-time, year-round and two dependent children. This family has lost purchasing power every year since 1989, for a 4-year loss of $1,444 (see table).

The two-earner family that made $33,492 back in 1982 is now earning an estimated $53,984, but when federal taxes, state and local taxes, and inflation are taken into account, this sizeable $20,492 increase in family income results in a real gain of only $4,021.

The Economic Recovery Tax Act of 1981 (ERTA) and the Tax Reform Act of 1986 (TRA'86) lightened the family's federal income tax burden, from a high of 17 percent of the family's income in 1981 to its current level of 12 percent. But this relief has been overwhelmed by the rising toll of Social Security taxes, federal excise taxes, and state and local taxes.

The combined Social Security tax rate has increased six times since 1981, up from 6.1 percent in 1980 to 7.65 percent today. More earnings are automatically subjected to the tax every year, so that Social Security's bite out of the typical family's income has reached a record $4,130 in 1992.

But individual income taxes and Social Security "contributions" are only part of the federal tax take. Indirect federal taxes — the employer's share of Social Security; business taxes; and excise taxes on a multitude of products — mean lower wages and salaries for workers, higher prices for consumers, and lower returns for investors. The Omnibus Budget Reconciliation Act of 1990 increased many of these, notably on gasoline (9 to 14 cents per gallon), cigarettes (16 to 24 cents per pack), beer (16 to 32 cents per 6-pack), wine (3 to 21 cents per bottle), and the telephone excise tax (permanently 3 percent). All told, the median family examined here will pay $5,832 in indirect federal taxes in 1992, or 10.8 percent of the family's income.

Higher state and local taxes are also causing the decline in the family's after-tax income. Just since 1990, states have added $37 billion in new taxes. Total state and local taxes that claimed 8.9 percent of the family's earnings in 1982 now commandeer 9.8 percent, or $5,282.

The Impact of Inflation

Inflation stood at 13.5 percent in 1980 but declined steadily to a low of 1.9 percent in 1986, giving the growth rate in family income a chance to outpace inflation. It was during this period that the family achieved its most significant gains, with real income rising an average of $911 per year between 1983 and 1988. However, inflation has since accelerated slightly and combined with a weak economy to reverse the trend. Inflation is estimated at 3.16 percent for 1992.

Taxes Dominate the Family Budget

Federal, state, and local taxes together are the largest item in the family's 1992 budget — 39.7 percent — more than on food, clothing, and housing combined. After paying its tax burden and purchasing these necessities, the family has only 29 cents left on a dollar to pay for such items as health care, transportation, and insurance. Not surprisingly, the family's current savings rate is less than 3 percent.

The outlook for family purchasing power is bleak. Persistent federal deficit spending over $350 billion means more pressure to raise federal taxes, and a similar situation prevails at the state level. These demands on the family paycheck, along with inflation and slower income growth, are likely to make the next few years tough sledding for the typical American family. ■

Two-Earner Median Family Income Before and After Taxes and Inflation

1980–1992

Year	Two-earner median family income (a)	Federal Taxes: Direct Taxes: Income Tax (b)	Federal Taxes: Direct Taxes: Social Security	Federal Taxes: Indirect Taxes (c)	State & Local Taxes (d)	Total Taxes	Effective Rate	After-Tax Income: Current Dollars	After-Tax Income: Constant 1992 Dollars (e)	After-Tax Income: Real Income Gain or (Loss)
1980	$29,669	$4,849	$1,819	$3,076	$2,547	$12,291	41.4%	$17,378	$29,631	
1981	32,283	5,610	2,147	3,466	2,765	13,986	43.3	18,297	28,280	($1,351)
1982	33,492	5,219	2,244	3,457	2,985	13,905	41.5	19,587	28,518	238
1983	35,440	4,991	2,374	3,802	3,187	14,353	40.5	21,087	29,746	1,227
1984	38,267	5,497	2,679	4,028	3,435	15,639	40.8	22,628	30,599	853
1985	40,213	5,785	2,835	4,380	3,632	16,632	41.3	23,581	30,791	192
1986	42,326	6,123	3,026	4,434	3,891	17,474	41.2	24,852	31,859	1,068
1987	44,981	5,655	3,216	4,833	4,149	17,853	39.6	27,128	33,552	1,693
1988	47,445	5,828	3,563	5,148	4,293	18,832	39.6	28,613	33,985	431
1989	49,058	6,178	3,684	5,264	4,462	19,588	39.9	29,470	33,391	(592)
1990	50,898	6,562	3,894	5,311	4,646	20,413	40.1	30,485	32,771	(620)
1991	52,579	6,383	4,022	5,552	4,871	20,828	39.6	31,751	32,753	(18)
1992 (f)	53,984	6,201	4,130	5,832	5,282	21,445	39.7	32,539	32,539	(214)

a) Median family income for household with two earners, employed full-time, year round.
b) Married couple filing joint return, two dependent children.
c) Estimated average indirect federal taxes. Includes excise taxes, employer's share of Social Security taxes, allocated corporate taxes, and miscellaneous levies.
d) Estimated national average of total state and local taxes.
e) Adjusted by Consumer Price Index (CPI-X1), estimated 3.16% inflation in 1992.
f) Estimates based on first and second quarter 1992 statistics.
Sources: Tax Foundation; U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; U.S. Treasury Department, Internal Revenue Service.

Smith Promotes 1040 Checkoff As Strategy for Taxpayers to Pressure Lawmakers on Debt and Spending Reduction

On October 2, Director of Fiscal Affairs Paul G. Merski interviewed Senator Robert C. Smith on the Taxpayer Public Debt Reduction Act, a proposal Senator Smith has introduced to allow taxpayers to designate a portion of their income tax payments for debt and spending reduction.

Q President Bush recently announced in his Agenda for American Renewal that taxpayers should have the right to direct their tax payments to reduce the debt. This announcement has sparked great interest in your Taxpayer Public Debt Reduction Act which has also been proposed in the House by Rep. Robert Walker (R-PA). How would your proposal allow typical taxpayers to participate in reducing the national debt?

A All taxpayers, by means of a simple checkoff on their tax return, could dedicate an amount of up to 10 percent of their tax liability specifically toward the payment of the federal budget deficit. When the deficit is paid down and the budget is balanced, the funds would then go toward reducing the national debt, which is now well over $3 trillion. This would not represent any new tax money. It is simply a matter of voluntarily choosing anywhere from 1 to 10 percent of your existing tax liability to help reduce our record debt level. For example, if you had a $5,000 tax liability, then you could designate up to $500 of that to go directly toward debt reduction.

The key is that it's a voluntary proposal that lets taxpayers get directly involved. It's an empowerment issue on the part of the taxpayers. The President has taken a firm stand on it and is in favor of giving taxpayers that voluntary responsibility to make a difference in how their tax dollars can be spent. I think the important point on this proposal is that nothing is mandated until the taxpayers designate it by exercising their checkoff option.

Q Your proposal also attempts to curtail the spending growth of the federal government. How would this be accomplished?

A Controlling runaway federal spending growth is a major reason why I introduced this proposal. By checking off an amount to go toward debt reduction, each individual taxpayer would simultaneously authorize a corresponding dollar-for-dollar reduction in federal spending, except for spending on Social Security, mandatory interest payments on the debt, and, federal deposit insurance. On May 1st of each year, the Treasury Department would be required to provide Congress with an estimate of the total amount of money taxpayers have designated. Congress would then have from May until the end of the session to find the spending reductions in the budget for the next fiscal year. This would enforce taxpayers' wishes that this money reduce government indebtedness and spending growth.

Let's say that the taxpayers checkoff $25 billion for debt reduction. The Congress then would have the option through the current spending caps in the budget, or in any way that it sees fit, to set priorities on how best to reduce budget spending growth by $25 billion. If it doesn't make the reduction, then automatic across-the-board cuts would kick in. Also, all spending cuts would be permanent, which would help reduce the annual spending baseline.

Q Wouldn't tax increases simply be enacted to make up for any targeted spending reductions as a result of your legislation?

A The answer to that is no. The Congress has always had the option to raise taxes any time it chooses. Unfortunately, that seems to be very prevalent around here. But even if it does raise taxes, those tax increases cannot replace the cuts that must be made. So, Congress would have a very difficult time explaining to taxpayers why it raised say $25 billion in taxes even though the taxpayers specifically directed it to reduce spending growth by $25 billion. So, the answer, very simply, is that Congress can raise taxes, but tax hikes cannot be applied to offset the cuts mandated by taxpayers.

At left, Senator Robert C. Smith (R-NH) explains his Taxpayer Public Debt Reduction Act to Tax Foundation Director of Fiscal Affairs Paul Merski.

Q This year the federal government will run a $400 billion deficit, and the total debt held by the public will exceed $3 trillion. Is it possible for your Debt Reduction Act to make a

significant dent in these numbers?

A It sure can, and I think that's one of the reasons why the tax-and-spend liberals are so fervent in their opposition. There are approximately 110 million taxpayers in America who pay about $500 billion in income taxes. If everybody chose to check off the maximum 10 percent, which is unlikely, then according to the calculations of the Congressional Budget Office, the budget could be balanced within four years, and the national debt itself could be totally eliminated before the year 2010. That's how dramatic the effect of this legislation could be.

Now, you can speculate and say, well, if taxpayers only choose 5 percent instead of 10 percent, then debt and federal spending would be reduced by $25 billion each. You can easily do the mathematics, and you can see at what rate we would reduce the debt. But the greater point is that taxpayers set the pace. In spite of Congress, taxpayers can reduce runaway federal spending and the nation's record debt. This will produce permanent cuts, and the interest payments on the debt will also go down sharply as we reduce the debt, adding up to significant savings. We could save $15 or $20 billion dollars a year in interest expenses alone.

Q Why would buying down existing federal debt be beneficial if it is simply offset by new debt?

A Obviously, if Congress continued to incur more debt, then it would not be beneficial. We are already spending over $200 billion per year just on interest costs — one in seven dollars sent to Washington goes for interest on the debt. Buying down the debt is what this proposal empowers taxpayers to do. Now, if Congress goes ahead and borrows more money, it will have to answer to the public who mandated the exact opposite action.

The bottom line is that reducing federal spending growth and buying down the debt is beneficial. If Congress adds new debt, then it will have ignored the intent of the law, which is what it did with Gramm-Rudman. But, if it ignores the law this time, it will be ignoring the will of the taxpayers and the Congress will do that at great peril.

Q In 1987, Congress did scrap the original Gramm-Rudman deficit targets because it was unable to stomach $16 billion in spending cuts. If taxpayers fully participated in the plan, would the resulting $50 billion in spending cuts likely be allowed by Congress?

A Congress did walk away from the spending control of Gramm-Rudman. It walked away from it because it did not have the guts to face the hammer of the sequester, which legally could have achieved a balanced budget by today. The law was good but Congress didn't have the courage to enforce it. In this case, however, the hammer is the taxpayers themselves.

If taxpayers fully participate in the plan, they will mandate $50 billion in budget savings. Congress has to produce these savings unless it specifically changes the law again. This could only be done with great peril because this time it's the taxpayers saying they want a $50 billion cut this year. So with taxpayers mandating the cut each year, Congress will have to comply or the public will respond accordingly at election time. That is how the process should work.

Q How would you respond to those who say your bill is "unfair" because it allows individuals with tax liabilities to initiate spending cuts that affect people without income or who do not need to file a tax return?

A While someone with a larger tax liability could designate more money for debt reduction, the checkoff proposal is fair because that individual cannot designate what program should be targeted for spending reductions. The individual taxpayer could not say "Cut defense, cut environment, cut education, or cut Social Security." A person can simply say I am designating a certain percentage of my taxes to reduce the debt and to slow the overall growth rate of federal spending. Congress will still have a free hand in deciding the spending levels of specific programs through the budgetary process.

Q Other checkoff options on the individual tax return have been declining in popularity. Does your plan differ from these types of checkoffs and do you have any estimates on the likely participation rate in your debt reduction option?

A A national survey conducted in September indicated that 70 percent of individuals viewed the check-off option as a good idea. I have not seen any scientific analysis on specifically how many people would participate. However, I think this idea will start slowly and catch on because as people see the debt actually going down due to their participation, they are going to start talking about these positive results at the dinner table, and the work place. They are going to realize that they are directly responsible for debt reduction. As with any new idea, there is skepticism at first, but I think momentum will grow. Many American taxpayers will do it because they are sick and tired of seeing a selfish Congress passing on debt to our children. This is a way to go around Congress and say you're not doing the job, but we are going to get the job done. Unlike other check-off options on the tax return, this is the only one that is not calling for additional spending, but, instead, it mandates spending restraint.

Q What level of support has your debt reduction plan received from your colleagues and from taxpayers around the country?

A My mail has been overwhelmingly favorable. We have done talk shows in my state and around the country explaining this proposal, and the response has been phenomenal. The White House has received positive feedback from the President's endorsement of this option. However, it is interesting to see how a proposal that is supported overwhelmingly by the taxpayers is not supported by the majority of the United States Senate. I don't object to a difference of opinions in this country — that's democracy. But what I object to is insulting taxpayers by refusing them the option to reduce the debt. This proposal would not reduce spending one nickel if taxpayers did not choose to do so. I am going to try to give taxpayers the right to do that. They are tired of politicians talking about the dangers of runaway spending and not doing anything about it. ■

Tax Foundation's
55th National Conference and Annual Dinner

New Directions in Tax Policy

Wednesday, November 18, 1992, The Waldorf-Astoria, New York City

The Waldorf-Astoria is located at 301 Park Avenue, New York, NY 10022

Registration/Light Fare	12:00 noon	Jade Room
Conference Sessions	1:00 p.m.	Jade Room
Reception	6:00 p.m.	Hilton Room
Dinner (Black Tie optional)	7:00 p.m.	Empire Room

- Professors and students can participate in the conference through the Foundation's College Classroom Program.
- Reservation deadline for the block of rooms reserved by the Tax Foundation is November 1, 1992. Call the Waldorf directly at 212/872-4534.
- Conference and dinner reservations should be received by November 13, 1992. (Written cancellations for refunds accepted through this date only.)
- Questions about the conference and dinner should be directed to: Michelle Rubin, 202/863-5454. Fax 202/488-8282.

12:00	**Registration**	***Light Fare***	3:15	**Session II**	***The Future of Tax Policy — Is the Present System in Need of Repair or Replacement?***
1:00	**Welcome**	***Dan Witt*** Executive Director Tax Foundation		**Panel Chairman**	***Floyd L. Williams, III*** Chief Tax Counsel Tax Foundation
	Session I	***The Current State of Tax Policy***		**Speakers**	***Harry L. Gutman*** Chief of Staff Joint Committee on Taxation
	Panel Chairman	***Paul G. Merski*** Director of Fiscal Affairs Tax Foundation			***R. Glenn Hubbard*** Deputy Assistant Secretary Office of Tax Analysis Department of the Treasury
	Speakers	***Ronald Pearlman*** Partner Covington & Burling			***Rudolph G. Penner*** Director of Economic Studies KPMG Peat Marwick
		Bill Frenzel Distinguished Fellow Tax Foundation			***David Bradford*** Member Council of Economic Advisers
		Lawrence Kudlow Chief Economist Bear Stearns			***Robert J. Shapiro**** Vice President for Economic Studies Progressive Policy Institute
3:00	**Break**		5:00	**Adjournment**	

** Invited*

Registration Form

Name _____

Company _____

Address _____

City _____ State _____ ZIP _____

Telephone _____ Fax _____

Please return registration form with payment to:

Tax Foundation
470 L'Enfant Plaza, SW, #7400
Washington, DC 20024
Attn: Michelle Rubin
Phone: 202/863-5454
Fax : 202/488-8282

Conference Fee:
Member/$100, Non-Member/$150
Reception/Dinner: $250

Tax Foundation's National Conference In NYC To Chart New Directions In Tax Policy

The Tax Foundation will hold its 55th annual conference and dinner on November 18, 1992, at the Waldorf-Astoria Hotel in New York City.

The conference, titled "New Directions in Tax Policy," will explore the legacy of the 1980s and plot a course for the rest of the 1990s. (See registration form opposite.)

Eleven years ago, a major tax cut led the U.S. out of its last recession, and in a decade of frenzied tax and fiscal policy activity, the economy sustained 92 consecutive months of growth. This period included a major restructuring of the tax code in 1986 which lowered marginal rates dramatically. Many nations followed our lead and cut their marginal rates.

The first session will assess the impact of the major tax legislation enacted during the past decade, with emphasis on the benefits and shortcomings of the Reagan/Bush economic agenda.

Ronald Pearlman of Covington & Burling, Bill Frenzel of the Tax Foundation, Lawrence Kudlow of Bear Stearns, and Norman B. Ture of the Institute for Research on the Economics of Taxation will draw the relevant lessons from the decade of the 1980s.

The second panel will examine potential new directions in federal tax policy, including alternative tax systems that have received more attention in light of heightened global competition.

David Bradford of the Council of Economic Advisers, Harry L. Gutman of the Joint Committee on Taxation, R. Glenn Hubbard of the Department of the Treasury, and Rudolph G. Penner of KPMG Peat Marwick are slated to outline policies the U.S. needs to adopt to steer the country out of its current economic doldrums.

In the evening, the dinner will feature the presentation of Distinguished Service Awards to both Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, and Allen Murray, Chairman of the Board, President and Chief Executive Officer of Mobil Corporation (see page 8). ■

FOUNDATION MESSAGE

Reducing the Regulatory Burden for Small Business

Floyd L. Williams, III
Chief Tax Counsel

The current Administration has stated that reduction of the regulatory burden for small businesses is an integral part of its economic agenda, in recognition of the fact that two-thirds of all new jobs are created by small businesses. The Treasury and the Internal Revenue Service have recently taken a significant step in this regard by issuing new, simplified payroll tax deposit rules for employers. These new rules will reduce the costly burden of needless paperwork and confusing red tape for millions of small businesses. The rules are simpler, more user-friendly, and will ease compliance.

The existing payroll tax deposit rules are quite complex and require employers to monitor constantly the amount of accumulated taxes withheld from employees' paychecks. In some cases, payroll tax deposits can be required eight times each month, and the deposit schedule can change frequently. According to the IRS, employers have had so much difficulty meeting the deposit requirements that 30 percent of all employers required to make deposits were penalized annually for inadequate or late deposits.

Last May, the IRS proposed changes that were intended to simplify and standardize the payroll tax deposit system, and asked for comments from the public, business representatives, and payroll processors. The new rules will take effect on January 1, 1993, but provide a one-year transition period for employers to change their payroll systems.

Under the new regulations, which were issued on September 22, 1992, employers generally will deposit withheld taxes either on a monthly or semi-weekly basis. Determining which deposit schedule applies will simply require looking back at the employment taxes reported for a 12-month look-back period (July 1 - June 30 of the prior year). By November of each year, the IRS will notify employers which schedule to follow for the coming year.

Employers who reported $50,000 or less during the look-back period will be monthly depositors. According to the IRS, this category will include 75 percent of all employers (and most small business employers). The deposits for these employers will be due by the fifteenth day of the following month.

Employers who reported $50,000 or more during the look-back period will be semi-weekly depositors. For Wednesday, Thursday, or Friday paydays, the deposit will be due by the Wednesday after the payday. For all other paydays, the deposits will be due by the Friday after the payday.

The new regulations carry over some special rules and exceptions from the present regulations. For example, employers accumulating $100,000 during a monthly or semi-weekly period must make deposits by the next banking day. Employers that accumulate less than $500 during the quarter can skip making deposits altogether and send full payment with their quarterly employment tax returns.

A safe-harbor rule provides that an employer who underdeposits will not be penalized if the shortfall is $100 or less, or is less than two percent of the amount that should have been deposited. Finally, for purposes of the new rules, all new employers will be monthly depositors.

These new rules indicate that the government truly is serious about reducing the burdens on small businesses. Furthermore, they reflect the positive results that can be achieved when the government, the public, and the business community work together for a common goal.

Greenspan and Murray To Receive Foundation's Distinguished Service Awards at Annual Dinner

Alan Greenspan will address the Tax Foundation's 55th annual dinner in New York City on November 18, 1992, as he receives the Foundation's Distinguished Service Award for the Public Sector.

Alan Greenspan

In March, Greenspan began a second four-year term as Chairman of the Board of Governors of the Federal Reserve System. His current term as a member of the Board of Governors runs through January 2006.

From 1954 to 1974 and from 1977 to 1987 Greenspan was Chairman and President of Townsend-Greenspan and Co., Inc., an economic consulting firm in New York City. He served from 1974 to 1977 as Chairman of President Ford's Council of Economic Advisers and from 1981 to 1983 as Chairman of the National Commission on Social Security Reform.

He has also served as a member of President Reagan's Economic Policy Advisory Board, and a consultant to the Congressional Budget Office.

He was born on March 6, 1926, in New York City. He has his B.S., M.A., and Ph.D. in economics from New York University. ■

Also at the annual dinner, the Tax Foundation will bestow its Distinguished Service Award for the Private Sector on Allen E. Murray, Chairman of the Board, President and Chief Executive Officer of Mobil Corporation.

Allen Murray

Murray joined Mobil in 1952 as an accountant, was appointed general manager of the Middle East and Indonesian Affairs Department in 1967, and was elected a corporate vice president and appointed executive vice president of the North American Division in 1974.

He was appointed president and chief operating officer in 1983, and in 1986 he assumed his current position.

He is a director of the American Petroleum Institute, and a member of the President's Advisory Committee on Trade Policy and Negotiations, the Council on Foreign Relations, the Trilateral Commission, and the Chase Manhattan Bank International Advisory Committee.

He was born on March 5, 1929, in New York City. He received his B.S. degree in business administration from New York University in 1956. ■

Mark Your Calendar
for the
Tax Foundation's 55th Annual Dinner and Conference
November 18, 1992
at the Waldorf-Astoria in New York City

Recent Foundation Publications

Value of Typical Family's 1992 Income Eroded by Taxes and Inflation	**4 pp.; $8 + $2 p/h**
Tax Aspects of Improving the Investment Climate in Russia	**4 pp.; $8 + $2 p/h**
Facts and Figures on Government Finance, 1992	**Cloth; 359 pp.; $55 + $2 p/h**

Tax Features

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